

City of Auburn
Auburn, Michigan
Annual Financial Statements
and
Auditors' Report
June 30, 2008

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City of Auburn
List of Elected and Appointed Officials
June 30, 2008

City Commission

John McNally	Mayor
Richard Fletcher	Commissioner
Ann Machelski	Commissioner
B.J. Raab	Commissioner
William Reder	Commissioner
Sandra Henning	Commissioner
Ken Charbonneau	Commissioner

Other Officers and Officials

JoElla Krantz	City Administrator
Lucille Wiesenauer	City Clerk/Treasurer

Independent Auditors' Report

To the Honorable Mayor and Members of the City Commission
City of Auburn

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Auburn as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Auburn as of June 30, 2008 and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Auburn's basic financial statements. The accompanying other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Yeo & Yeo, P.C.

December 5, 2008
Saginaw, Michigan

City of Auburn
Management's Discussion and Analysis
June 30, 2008

As management of the City of Auburn, Michigan, we offer readers of the City's financial statement this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2008. Please read it in conjunction with the City's basic financial statements, which begin immediately following this analysis. This annual financial report consists of four parts – Management's Discussion and Analysis (this section), the Basic Financial Statements, Required Supplemental Information and Other Supplemental Information.

Financial Highlights

- This City's financial statements are prepared using two different accounting standards resulting in fund financial statements and government-wide statements.
- Government-wide financial statements are comprised of governmental activities and business-type activities. Governmental activities include General Fund activities such as Public Safety and Parks and Recreation. Business-type activities include proprietary funds such as Water and Sewer.
 - In total, the assets of the City exceed its liabilities by \$5,212,684 at the close of the most recent fiscal year.
 - \$3,083,322 is invested in Capital Assets, net of related debt;
 - \$2,129,362 is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors, subject to the purpose of the fund in which they are located. This balance is comprised of \$1,756,446 in governmental activities and \$372,916 in business-type activities.
 - The City's total net assets increased by \$349,667 during the year, primarily due to increased infrastructure.
 - The City's bonded debt decreased by \$113,935 (new issues less retirements), during the fiscal year.
- Fund financial statements are comprised of 8 governmental funds and 3 proprietary funds. Governmental funds include the General Fund, Major and Local Street Funds, Street Repair Millage Fund, and other special revenue and debt service funds.
 - At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,323,782.
 - Of the fund balance amount, \$891,197 is unreserved and may be used to meet the government's ongoing obligations to citizens and creditors, subject to the purpose of the fund in which they are located.
 - The City's major funds, the General Fund (\$631,082), Major Street Fund (\$103,711), Local Street Fund (\$8,755) and the Street Repair Millage Fund (\$144,611) account for 99% of this unreserved balance. The remaining amount is represented across the other 4 non-major funds.
 - The general fund recognized a gain of \$101,601. At the end of the current fiscal year, unreserved general fund balance was 81% of the total general fund expenditures and other uses.

City of Auburn
Management's Discussion and Analysis
June 30, 2008

Overview of the Basic Financial Statement

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements.

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The Statement of Net Assets includes all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases in net assets may serve as a useful indicator of whether the City's financial position is improving or deteriorating. Net assets are displayed in three categories:

- Invested in Capital Assets, Net of Related Debt
- Restricted
- Unrestricted

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (**governmental activities**) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (**business-type activities**). The governmental activities of the City include: general government, public safety, streets, sanitation and recreation. The business-type activities of the City include: a water and sewer system and motor pool.

The government-wide financial statements include not only the City itself (known as the primary government), but also the Downtown Development Authority. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

City of Auburn
Management's Discussion and Analysis
June 30, 2008

Fund Financial Statement. The fund financial statements provide more detailed information about the City's major funds individually. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Auburn, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus on governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Auburn maintains eight (8) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Major Street Fund, Local Street Fund and the Street Repair Millage Fund which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its general fund and special revenue funds. A budgetary comparison statement has been provided for the general and other major funds to demonstrate compliance with this budget.

Proprietary funds. The City of Auburn maintains three (3) proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer activity. The internal service fund is an accounting device used to accumulate and allocate costs internally among the City's various functions. The City of Auburn uses an internal service fund to account for its fleet of vehicles and other equipment.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

City of Auburn
Management's Discussion and Analysis
June 30, 2008

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Analysis of the Government-Wide Financial Statements

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year:

	Government Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Assets						
Current and other assets	\$1,863,953	\$1,669,738	\$ 31,418	\$ (3,385)	\$1,895,371	\$1,666,353
Capital assets	1,209,396	1,171,294	2,930,636	3,001,967	4,140,032	4,173,261
Total assets	<u>3,073,349</u>	<u>2,841,032</u>	<u>2,962,054</u>	<u>2,998,582</u>	<u>6,035,403</u>	<u>5,839,614</u>
Liabilities						
Current liabilities	34,042	66,563	53,502	56,322	87,544	122,885
Long-term liabilities	<u>735,175</u>	<u>829,119</u>	<u>-</u>	<u>24,593</u>	<u>735,175</u>	<u>853,712</u>
Total liabilities	<u>769,217</u>	<u>895,682</u>	<u>53,502</u>	<u>80,915</u>	<u>822,719</u>	<u>976,597</u>
Net Assets						
Invested in capital assets - net of related debt	547,686	420,242	2,535,636	2,557,374	3,083,322	2,977,616
Restricted	-	3,305	-	-	-	3,305
Unrestricted	<u>1,756,446</u>	<u>1,521,803</u>	<u>372,916</u>	<u>360,293</u>	<u>2,129,362</u>	<u>1,882,096</u>
Total net assets	<u>\$2,304,132</u>	<u>\$1,945,350</u>	<u>\$2,908,552</u>	<u>\$2,917,667</u>	<u>\$5,212,684</u>	<u>\$4,863,017</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Auburn, assets exceeded liabilities by \$5,212,684 at the close of the most recent fiscal year. City of Auburn's increase in net assets for this fiscal year amounts to \$349,667.

The largest portion of the City's net assets (59%) reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment), less any accumulated depreciation and related debt used to acquire those assets that is still outstanding. The City used these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investments in its capital is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Auburn
Management's Discussion and Analysis
June 30, 2008

City's Changes in Net Assets:

	Governmental Activities		Business-type Activities		
	2008	2007	2008	2007	
Revenue					
Program revenue					
Charges for services	\$ 141,438	\$ 137,665	\$ 519,985	\$ 502,239	
Operating grants and contributions	142,660	144,862	-	-	
General revenue					
Property taxes	769,554	746,751	-	-	
State-shared revenue	184,343	184,385	-	-	
Interest	72,621	71,502	7,307	7,708	
Miscellaneous	5,785	8,882	1,058	1,622	
Transfers	(12,400)	(12,400)	12,400	12,400	
Total revenue	1,304,001	1,281,647	540,750	523,969	
Program expenses					
General government	183,719	197,059	-	-	
Public safety	262,164	251,798	-	-	
Public works	350,434	375,911	-	-	
Community and economic development	2,591	3,989	-	-	
Recreation and culture	104,509	78,203	-	-	
Interest on long-term debt	41,802	45,207	-	-	
Water and sewer	-	-	549,865	550,605	
Total program expenses	945,219	952,167	549,865	550,605	
Change in Net Assets	<u>\$ 358,782</u>	<u>\$ 329,480</u>	<u>\$ (9,115)</u>	<u>\$ (26,636)</u>	<u>\$</u>

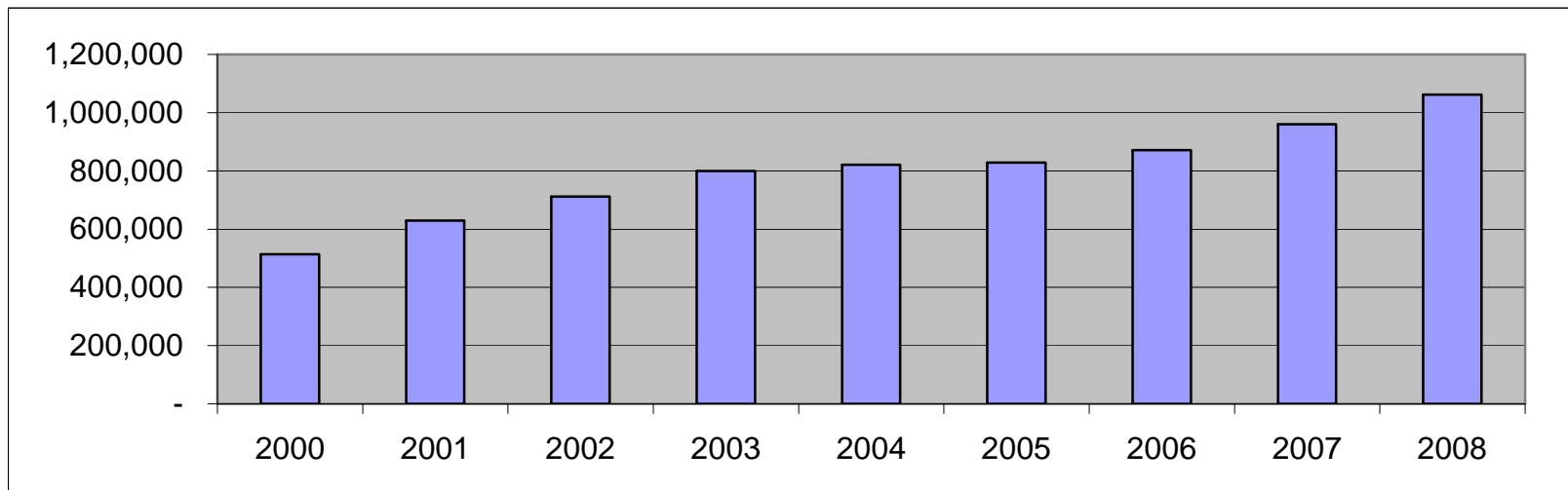
City of Auburn
Management's Discussion and Analysis
June 30, 2008

Governmental Activities. Governmental activities increased the City's net assets by \$358,782.

City of Auburn Funds

General Fund

The General Fund is the chief operating fund of the City. As of the end of the fiscal year, total fund balance for the General Fund was \$1,062,100, an increase of \$101,601 over prior year balance, an 11% increase over the previous year. Following is a chart of the General Fund fund balance trend over the past seven years.



Major and Local Street Funds

The State of Michigan provides municipalities revenues from gas and weight taxes to reimburse expenditures for the maintenance and construction of the local street system. The State requires that these expenditures be segregated into a Major Street component and a Local street component. The City uses the funds for improvements to the City street system, along with contributions from the

City of Auburn
Management's Discussion and Analysis
June 30, 2008

Street Repair Millage Fund. Major Street fund balance had an increase of \$16,278 and the Local Street fund balance increased by \$8,347.

Street Repair Millage Fund

The City's millage for road construction and improvements are accounted for in this fund. The fund balance had an increase of \$78,020. The fund transfers revenue to the Local and Major Street funds.

Business-type activities. Business-type activities decreased the City's net assets by \$9,115. The Water Fund continued to invest capital assets to replace its aging infrastructure. The Sewer Fund will continue to build capital reserves for future replacement and repairs of the Nine Mile Road pump station.

Budgetary Highlights

Budget and actual comparison statements are provided in the Budgetary Comparison Schedule for the General Fund and all major special revenue funds with annually appropriated budgets. These statements show the original budget, final budget, actual amounts, and the variances between actual and final budgeted amounts. Operating the City is a dynamic undertaking and budget amendments are approved throughout the year. Budgets are revised for a variety of reasons, such as unanticipated revenues or unforeseen expenditures. Over the course of the fiscal year the City Commission revised the budget two times.

Capital Asset and Debt Administration

Capital assets. At June 30, 2008 the City had \$4.14 million invested in capital assets, including buildings, equipment, park and recreation facilities and water and sewer lines.

Long-Term Debt. At June 30, 2008, the City of Auburn had total bonded debt outstanding of \$661,710. Additional information can be found in the Notes to the Financial Statements, Note 7.

Economic Factors

The State of Michigan continues to struggle economically. The General Operating Fund of the City is primarily reliant on distributions of state shared revenues and property taxes. State shared revenues have continued to decline. State revenues are at their lowest since 1970. At this writing, the State of Michigan's revenues are, once again, falling below projections. This may impact Auburn through further reductions in State revenue sharing. To date these revenue reductions have been masked because of our growth and increased property tax revenues. The City will continue to monitor revenues and expenditures to ensure the City maintains a balanced budget.

City of Auburn
Management's Discussion and Analysis
June 30, 2008

Financial Contact

The City's financial statements are designed to present users (citizens, taxpayers, customers, investors, and creditors) with a general overview of the City's finances and to demonstrate the City's accountability. If you have questions about the report or need additional financial information, please contact the City's Administrator at 113 E. Elm Street, Auburn, Michigan 48611.

City of Auburn
Statement of Net Assets
June 30, 2008

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	\$ 1,297,657	\$ 291,667	\$ 1,589,324	\$ 234,890
Receivables				
Taxes	37,869	1,807	39,676	106,888
Customers	23,111	71,761	94,872	-
Special assessments	12,916	-	12,916	-
Accrued interest and other	1,521	-	1,521	-
Due from other units of government	80,782	-	80,782	-
Internal balances	372,073	(372,073)	-	-
Prepaid items	38,024	38,256	76,280	-
Nondepreciable capital assets	61,570	36,000	97,570	13,000
Depreciable capital assets, net	<u>1,147,826</u>	<u>2,894,636</u>	<u>4,042,462</u>	<u>10,569</u>
Total assets	<u>3,073,349</u>	<u>2,962,054</u>	<u>6,035,403</u>	<u>365,347</u>
Liabilities				
Accounts payable	7,746	51,884	59,630	-
Accrued and other liabilities	25,174	1,493	26,667	-
Due to other units of government	1,122	125	1,247	-
Noncurrent liabilities				
Due within one year	94,342	-	94,342	-
Due in more than one year	<u>640,833</u>	<u>-</u>	<u>640,833</u>	<u>-</u>
Total liabilities	<u>769,217</u>	<u>53,502</u>	<u>822,719</u>	<u>-</u>
Net assets				
Invested in capital assets, net of related debt	547,686	2,535,636	3,083,322	23,569
Unrestricted	<u>1,756,446</u>	<u>372,916</u>	<u>2,129,362</u>	<u>341,778</u>
Total net assets	<u>\$ 2,304,132</u>	<u>\$ 2,908,552</u>	<u>\$ 5,212,684</u>	<u>\$ 365,347</u>

See Accompanying Notes to Financial Statements

City of Auburn
Statement of Activities
For the Year Ended June 30, 2008

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Unit
					Governmental Activities	Business-type Activities	Total	
Primary government								
Governmental activities								
General government	\$ 183,719	\$ 20,208	\$ -	\$ -	\$ (163,511)	\$ -	\$ (163,511)	\$ -
Public safety	262,164	3,762	-	-	(258,402)	-	(258,402)	-
Public works	350,434	109,631	142,660	-	(98,143)	-	(98,143)	-
Community and economic development	2,591	-	-	-	(2,591)	-	(2,591)	-
Recreation and culture	104,509	7,837	-	-	(96,672)	-	(96,672)	-
Interest on long-term debt	41,802	-	-	-	(41,802)	-	(41,802)	-
Total governmental activities	945,219	141,438	142,660	-	(661,121)	-	(661,121)	-
Business-type activities								
Sewer	255,689	255,072	-	-	-	(617)	(617)	-
Water	294,176	264,913	-	-	-	(29,263)	(29,263)	-
Total business-type activities	549,865	519,985	-	-	-	(29,880)	(29,880)	-
Total primary government	\$ 1,495,084	\$ 661,423	\$ 142,660	\$ -	(661,121)	(29,880)	(691,001)	-
Component unit								
Downtown Development Authority	\$ 40,120	\$ -	\$ -	\$ -				(40,120)
General revenues								
Property taxes					769,554	-	769,554	221,038
State shared revenue					184,343	-	184,343	-
Unrestricted investment earnings					72,621	7,307	79,928	6,977
Miscellaneous					5,785	1,058	6,843	605
Transfers					(12,400)	12,400	-	-
Total general revenues and transfers					1,019,903	20,765	1,040,668	228,620
Change in net assets					358,782	(9,115)	349,667	188,500
Net assets - beginning of year					1,945,350	2,917,667	4,863,017	176,847
Net assets - end of year					\$ 2,304,132	\$ 2,908,552	\$ 5,212,684	\$ 365,347

See Accompanying Notes to Financial Statements

City of Auburn
Governmental Funds
Balance Sheet
June 30, 2008

	Special Revenue Funds				Nonmajor	Total
	General	Major Street	Local Street	Street Repair Millage	Governmental Funds	Governmental Funds
Assets						
Cash and cash equivalents	\$ 575,263	\$ 93,030	\$ 597	\$ 131,374	\$ 3,002	\$ 803,266
Receivables						
Taxes	24,686	-	-	13,183	-	37,869
Customers	23,075	-	-	-	36	23,111
Special assessments	12,916	-	-	-	-	12,916
Accrued interest and other	1,349	-	-	54	-	1,403
Due from other units of government	58,470	15,900	6,412	-	-	80,782
Due from other funds	-	-	3,788	-	-	3,788
Prepaid items	36,018	667	900	-	-	37,585
Advances to other funds	395,000	-	-	-	-	395,000
Total assets	<u>\$ 1,126,777</u>	<u>\$ 109,597</u>	<u>\$ 11,697</u>	<u>\$ 144,611</u>	<u>\$ 3,038</u>	<u>\$ 1,395,720</u>

See Accompanying Notes to Financial Statements

City of Auburn
Governmental Funds
Balance Sheet
June 30, 2008

	Special Revenue Funds				Nonmajor	Total
	General	Major Street	Local Street	Street Repair Millage	Governmental Funds	Governmental Funds
Liabilities						
Accounts payable	\$ 5,030	\$ 743	\$ 781	\$ -	\$ -	\$ 6,554
Accrued and other liabilities	12,220	635	1,160	-	-	14,015
Due to other funds	-	3,788	-	-	-	3,788
Due to other units of government	907	53	101	-	-	1,061
Deferred revenue	46,520	-	-	-	-	46,520
Total liabilities	64,677	5,219	2,042	-	-	71,938
Fund balances						
Reserved for:						
Long-term advances	395,000	-	-	-	-	395,000
Prepaid items	36,018	667	900	-	-	37,585
Unreserved, reported in:						
General fund	631,082	-	-	-	-	631,082
Special revenue funds	-	103,711	8,755	144,611	3,038	260,115
Total fund balances	1,062,100	104,378	9,655	144,611	3,038	1,323,782
Total liabilities and fund balances	\$ 1,126,777	\$ 109,597	\$ 11,697	\$ 144,611	\$ 3,038	\$ 1,395,720

See Accompanying Notes to Financial Statements

City of Auburn
Governmental Funds
Reconciliation of Fund Balances of Governmental Funds
to Net Assets of Governmental Activities
June 30, 2008

Total fund balances for governmental funds	\$ 1,323,782
Total net assets for governmental activities in the statement of net assets is different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	1,020,166
Certain receivables are not available to pay for current period expenditures and, therefore are deferred in the funds.	46,520
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest	(10,420)
Compensated absences	(73,465)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.	(661,710)
Internal service funds are included as part of governmental activities.	<u>659,259</u>
Net assets of governmental activities	<u><u>\$ 2,304,132</u></u>

City of Auburn
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2008

	Special Revenue Funds				Nonmajor	Total
	General	Major Street	Local Street	Street Repair Millage	Governmental Funds	Governmental Funds
Revenues						
Taxes	\$ 502,400	\$ -	\$ -	\$ 267,154	\$ -	\$ 769,554
Licenses and permits	22,053	-	-	-	195	22,248
State revenue sharing	183,700	97,090	39,132	-	-	319,922
Other state grants	-	2,144	4,294	-	-	6,438
Charges for services	109,541	-	-	-	-	109,541
Fines and forfeitures	1,812	-	-	-	-	1,812
Interest income	45,141	2,490	44	5,009	261	52,945
Rental income	6,437	-	-	-	-	6,437
Other revenue	12,807	-	-	-	-	12,807
Total revenues	883,891	101,724	43,470	272,163	456	1,301,704

See Accompanying Notes to Financial Statements

City of Auburn
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2008

	Special Revenue Funds				Nonmajor	Total
	General	Major Street	Local Street	Street Repair Millage	Governmental Funds	Governmental Funds
Expenditures						
Current						
General government	\$ 177,913	\$ -	\$ -	\$ -	\$ -	\$ 177,913
Public safety	255,213	-	-	-	3,900	259,113
Public works	192,345	61,361	89,709	-	-	343,415
Community and economic development	2,591	-	-	-	-	2,591
Recreation and culture	70,517	-	-	-	-	70,517
Capital outlay	8,010	-	98,467	-	-	106,477
Debt service						
Principal retirement	-	-	-	-	89,342	89,342
Interest and fiscal charges	-	-	-	-	42,527	42,527
Total expenditures	<u>706,589</u>	<u>61,361</u>	<u>188,176</u>	<u>-</u>	<u>135,769</u>	<u>1,091,895</u>
Excess (deficiency) of revenues over expenditures	<u>177,302</u>	<u>40,363</u>	<u>(144,706)</u>	<u>272,163</u>	<u>(135,313)</u>	<u>209,809</u>
Other financing sources (uses)						
Transfers in	-	-	153,053	-	128,476	281,529
Transfers out	<u>(75,701)</u>	<u>(24,085)</u>	<u>-</u>	<u>(194,143)</u>	<u>-</u>	<u>(293,929)</u>
Total other financing sources and uses	<u>(75,701)</u>	<u>(24,085)</u>	<u>153,053</u>	<u>(194,143)</u>	<u>128,476</u>	<u>(12,400)</u>
Net change in fund balance	101,601	16,278	8,347	78,020	(6,837)	197,409
Fund balance - beginning of year	<u>960,499</u>	<u>88,100</u>	<u>1,308</u>	<u>66,591</u>	<u>9,875</u>	<u>1,126,373</u>
Fund balance - end of year	<u>\$ 1,062,100</u>	<u>\$ 104,378</u>	<u>\$ 9,655</u>	<u>\$ 144,611</u>	<u>\$ 3,038</u>	<u>\$ 1,323,782</u>

See Accompanying Notes to Financial Statements

City of Auburn
Governmental Funds
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2008

Net change in fund balances - Total governmental funds	\$ 197,409
Total change in net assets reported for governmental activities in the statement of activities is different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Depreciation expense	(49,547)
Capital outlay	106,122
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	
State shared revenue	643
Special assessments	(5,622)
Expenses are recorded when incurred in the statement of activities	
Accrued interest	725
Compensated absences	4,602
Bond proceeds are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.	
Repayments of long-term debt	89,342
Internal service funds are also included as governmental activities	<u>15,108</u>
Change in net assets of governmental activities	<u>\$ 358,782</u>

See Accompanying Notes to Financial Statements

City of Auburn
Proprietary Funds
Statement of Net Assets
June 30, 2008

	Enterprise Funds			Internal
	Sewer	Water	Total	Service Funds
Assets				
Current assets				
Cash and cash equivalents	\$ 244,110	\$ 47,557	\$ 291,667	\$ 494,391
Receivables				
Taxes	-	1,807	1,807	-
Customers	20,275	51,486	71,761	-
Accrued interest and other	-	-	-	118
Prepaid items	37,536	720	38,256	439
Total current assets	301,921	101,570	403,491	494,948
Noncurrent assets				
Nondepreciable capital assets	36,000	-	36,000	-
Depreciable capital assets, net	1,006,569	1,888,067	2,894,636	189,230
Total noncurrent assets	1,042,569	1,888,067	2,930,636	189,230
Total assets	1,344,490	1,989,637	3,334,127	684,178
Liabilities				
Current liabilities				
Accounts payable	40,262	11,622	51,884	1,192
Accrued and other liabilities	542	951	1,493	739
Due to other units of government	45	80	125	61
Total current liabilities	40,849	12,653	53,502	1,992
Noncurrent liabilities				
Advances from other funds	-	395,000	395,000	-
Total liabilities	40,849	407,653	448,502	1,992

See Accompanying Notes to Financial Statements

City of Auburn
Proprietary Funds
Statement of Net Assets
June 30, 2008

	<u>Enterprise Funds</u>			<u>Internal Service Funds</u>
	<u>Sewer</u>	<u>Water</u>	<u>Total</u>	
Net assets				
Invested in capital assets, net of related debt	\$ 1,042,569	\$ 1,493,067	\$ 2,535,636	\$ 189,230
Unrestricted	<u>261,072</u>	<u>88,917</u>	<u>349,989</u>	<u>492,956</u>
Total net assets	<u>\$ 1,303,641</u>	<u>\$ 1,581,984</u>	2,885,625	<u>\$ 682,186</u>
Some amounts reported for business-type activities in the statement of net assets are different because certain internal service funds assets and liabilities are reported with business-type activities				<u>22,927</u>
Net assets of business-type activities			<u>\$ 2,908,552</u>	

See Accompanying Notes to Financial Statements

City of Auburn
Proprietary Funds
Statement of Revenues, Expenses and Changes in Fund Net Assets
For the Year Ended June 30, 2008

	Enterprise Funds			Internal
	Sewer	Water	Total	Service Funds
Operating revenue				
Customer fees	\$ 254,172	\$ 263,703	\$ 517,875	\$ -
Billings to other funds	-	-	-	154,716
Connection fees	900	1,210	2,110	-
Rental income	403	-	403	-
Other revenue	-	655	655	-
Total operating revenue	255,475	265,568	521,043	154,716
Operating expenses				
Personnel services	25,795	57,661	83,456	31,346
Supplies	2,412	2,342	4,754	41,805
Contractual services	160,540	143,435	303,975	1,067
Utilities	4,578	290	4,868	3,598
Repairs and maintenance	20,364	23,836	44,200	25,490
Other expenses	2,298	4,100	6,398	13,334
Depreciation	36,426	49,091	85,517	43,701
Total operating expenses	252,413	280,755	533,168	160,341
Operating income (loss)	3,062	(15,187)	(12,125)	(5,625)

See Accompanying Notes to Financial Statements

City of Auburn
Proprietary Funds
Statement of Revenues, Expenses and Changes in Fund Net Assets
For the Year Ended June 30, 2008

	Enterprise Funds			Internal
	Sewer	Water	Total	Service Funds
Nonoperating revenue (expenses)				
Interest income	\$ 5,415	\$ 1,892	\$ 7,307	\$ 19,676
Interest expense	<u>(3,040)</u>	<u>(12,600)</u>	<u>(15,640)</u>	<u>-</u>
Total nonoperating revenues (expenses)	<u>2,375</u>	<u>(10,708)</u>	<u>(8,333)</u>	<u>19,676</u>
Income (loss) before transfers in	5,437	(25,895)	(20,458)	14,051
Transfers in	<u>-</u>	<u>12,400</u>	<u>12,400</u>	<u>-</u>
Change in net assets	5,437	(13,495)	(8,058)	14,051
Net assets - beginning of year	<u>1,298,204</u>	<u>1,595,479</u>		<u>668,135</u>
Net assets - end of year	<u><u>\$ 1,303,641</u></u>	<u><u>\$ 1,581,984</u></u>		<u><u>\$ 682,186</u></u>
Some amounts reported for business-type activities in the statement of activities are different because the net revenue (expense) of certain internal service funds is reported with business-type activities			<u>(1,057)</u>	
Change in net assets of business-type activities			<u><u>\$ (9,115)</u></u>	

See Accompanying Notes to Financial Statements

City of Auburn
Proprietary Funds
Statement of Cash Flows
For the Year Ended June 30, 2008

	<u>Business-type Activities - Enterprise Funds</u>			<u>Internal Service Funds</u>
	<u>Sewer</u>	<u>Water</u>	<u>Total</u>	<u>Equipment</u>
Cash flows from operating activities				
Receipts from customers	\$ 255,580	\$ 259,885	\$ 515,465	\$ -
Receipts from interfund users	-	-	-	154,716
Payments to suppliers	(183,072)	(154,895)	(337,967)	(85,713)
Payments to employees	(25,795)	(57,661)	(83,456)	(31,346)
Payments for interfund services used	(6,462)	(22,574)	(29,036)	-
Net cash provided by operating activities	<u>40,251</u>	<u>24,755</u>	<u>65,006</u>	<u>37,657</u>
Cash flows from noncapital financing activities				
Transfer from other funds	<u>-</u>	<u>12,400</u>	<u>12,400</u>	<u>-</u>
Cash flows from capital and related financing activities				
Advances from other funds	-	(25,000)	(25,000)	-
Purchases/construction of capital assets	-	(14,186)	(14,186)	(25,228)
Principal and interest paid on long-term debt	(27,633)	(12,600)	(40,233)	-
Net cash used by capital and related financing activities	<u>(27,633)</u>	<u>(51,786)</u>	<u>(79,419)</u>	<u>(25,228)</u>
Cash flows from investing activities				
Interest received	<u>5,415</u>	<u>1,892</u>	<u>7,307</u>	<u>19,676</u>
Net increase (decrease) in cash and cash equivalents	18,033	(12,739)	5,294	32,105
Cash and cash equivalents - beginning of year	<u>226,077</u>	<u>60,296</u>	<u>286,373</u>	<u>462,286</u>
Cash and cash equivalents - end of year	<u>\$ 244,110</u>	<u>\$ 47,557</u>	<u>\$ 291,667</u>	<u>\$ 494,391</u>

See Accompanying Notes to Financial Statements

City of Auburn
Proprietary Funds
Statement of Cash Flows
For the Year Ended June 30, 2008

	<u>Business-type Activities - Enterprise Funds</u>			<u>Internal Service Funds</u>
	<u>Sewer</u>	<u>Water</u>	<u>Total</u>	<u>Equipment</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities				
Operating income (loss)	\$ 3,062	\$ (15,187)	\$ (12,125)	\$ (5,625)
Adjustments to reconcile operating income to net cash from operating activities				
Depreciation and amortization expense	36,426	49,091	85,517	43,701
Changes in assets and liabilities				
Receivables (net)	105	(5,683)	(5,578)	-
Prepaid items	8	4	12	21
Accounts payable	891	(3,446)	(2,555)	(597)
Accrued and other liabilities	(222)	17	(205)	136
Due to other units of government	(19)	(41)	(60)	21
Net cash provided by operating activities	<u>\$ 40,251</u>	<u>\$ 24,755</u>	<u>\$ 65,006</u>	<u>\$ 37,657</u>

See Accompanying Notes to Financial Statements

City of Auburn
Fiduciary Funds
Statement of Assets and Liabilities
June 30, 2008

	<u>Payroll</u>
Assets	
Cash and cash equivalents	\$ 3,287
Receivables	
Accrued interest and other	<u>611</u>
Total assets	<u>3,898</u>
Liabilities	
Due to other units of government	<u><u>\$ 3,898</u></u>

See Accompanying Notes to Financial Statements

City of Auburn
Notes to Financial Statements
June 30, 2008

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

City of Auburn is governed by an elected seven-member Commission. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government (see discussion below for description).

Discretely Presented Component Units – The component unit column in the entity wide financial statements include the financial data of the City's Downtown Development Authority. This unit is reported in a separate column to emphasize that it is legally separate from the City. The members of the Governing Board of the Downtown Development Authority are appointed by the City Commission. The budgets and expenditures of the Downtown Development Authority must be approved by the City Commission. The City also has the ability to significantly influence operations of the Downtown Development Authority. The Downtown Development Authority does not issue any other form of financial statements except as contained in the City of Auburn annual financial statements.

Jointly Governed Organizations

Auburn-Williams Fire Protection District – The City of Auburn and Williams Township jointly govern the Auburn-Williams Fire Protection District. The funding formula requires the City provide 30% and Williams Township 70% of the operational and building costs. The District has title to all property, plant and equipment. All of the financial operations of the District are recorded in the Auburn-Williams Fire Protection District.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net

assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. *Government activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

City of Auburn
Notes to Financial Statements
June 30, 2008

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street Fund accounts for the maintenance and improvement activities for streets designated as "major" within the City. Funding is primarily through state shared gas and weight taxes.

The Local Street Fund accounts for maintenance and improvement activities for streets designated as "local" within the City. Funding is primarily through state shared gas and weight taxes.

The Street Repair Millage Fund accounts for taxes levied for road construction and improvements.

The government reports the following major proprietary funds:

The Sewer Fund accounts for the activities of the sewage collection system.

The Water Fund accounts for the activities of the water distribution system.

Additionally, the government reports the following:

The nonmajor special revenue fund, Building Inspection Fund, accounts for the proceeds of specific revenue sources requiring separate accounting because of legal or regulatory provisions or administrative requirements.

The debt service funds, 2000 Midland Road Bonds Fund, 2000 Michigan Transportation Bonds Fund, and 1992 Auburn Drain

City of Auburn
Notes to Financial Statements
June 30, 2008

Fund, account for the accumulation of resources for, and payment of governmental activities principal, interest and related costs.

The Internal Service Fund accounts for major machinery and equipment purchases and maintenance provided to other departments of the government on a cost reimbursement basis.

The Payroll Fund and Current Tax Collection Fund account for payroll expenses and property tax and other deposits collected on behalf of other units and individuals, respectively.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the sewer and water funds and the internal service funds are charges to customers for sales and services. The government also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for sewer and water funds and the internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, Liabilities, and Net Assets or Equity

Deposits and investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value based on quoted market price. Certificate of deposits are stated at cost which approximates fair value.

Receivables and payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangement outstanding at the end of the fiscal year is referred to as “advances to/from other funds.” Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.”

Property taxes are levied on each July 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered

City of Auburn
Notes to Financial Statements
June 30, 2008

delinquent on February 15th of the following year, at which time penalties and interest are assessed.

The 2007 taxable valuation of the government totaled \$53,431,407, on which ad valorem taxes consisted of 10.06 mills for operating purposes, 0.94 mills for the Auburn Drain, and 5.0 mills for road repairs. This resulted in \$439,343 for operating expenses, \$50,116 for the Auburn Drain, and \$266,773 for road repairs, exclusive of any Michigan Tax Tribunal or Board of Review adjustments.

Prepaid items – Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital assets – Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost, if purchased or constructed.

The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the government values these capital assets at the estimated fair value of the item at the date of its donation.

Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building improvements	15 to 30 years
Roads	20 to 40 years
Other infrastructure	20 to 40 years
Water and sewer lines	50 to 75 years
Vehicles	3 to 5 years

Compensated absences – It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits, which will be paid to employees upon separation from the City. Sick leave is paid only upon retirement and is limited to the lesser of one-half of the total accumulation or 60 days. Employees are paid all of their accumulated vacation pay upon termination of employment for any reason. All vacation and sick pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-term obligations – In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for

City of Auburn
Notes to Financial Statements
June 30, 2008

a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Comparative Data

Comparative data is not included in the government's financial statements.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information

The government is subject to the budgetary control requirements of the Uniform Budgeting Act (P.A. 621 of 1978, as amended). Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal year end.

Prior to the first meeting held in June, the City Administrator submits to the City Commission a proposed operating budget for the fiscal year commencing the following July 1. Public hearings are obtained to obtain taxpayer comments and the budget is legally enacted through passage of an ordinance prior to July 1.

The budget document presents information by fund, activity, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level. The City Administrator is authorized to transfer budgeted amounts between line items within an activity; however, any revisions that alter the total expenditures of an activity must be approved by the City Commission.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent when goods are received or services rendered.

Budget Deficit

The City authorized a budget deficit in the Local Street Fund. The year end fund balance is in a positive position.

Note 3 - Deposits and Investments

At year end the government's deposits and investments were reported in the basic financial statements in the following categories:

	Cash and Cash Equivalents
Governmental activities	\$ 1,297,657
Business-type activities	291,667
Total primary government	1,589,324
Component unit	234,890
Total	<u>\$ 1,824,214</u>

The breakdown between deposits and investments is as follows:

	Primary Government	Component Unit
Bank deposits (checking and savings accounts, money markets and certificates of deposit)	\$ 1,589,174	\$ 234,890
Petty cash and cash on hand	150	-
	<u>\$ 1,589,324</u>	<u>\$ 234,890</u>

Interest rate risk – The government does not have a formal investment policy to manage its exposure to fair value losses from changes in interest rates.

Credit risk – State statutes and the government's investment policy authorize the government to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and

City of Auburn
Notes to Financial Statements
June 30, 2008

loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers acceptance of United States Banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Concentration of credit risk – The government has no policy that would limit the amount that may be issued in any one issuer.

Custodial credit risk - deposits – In the case of deposits, this is the risk that in the event of bank failure, the government's deposits may not be returned to it. The government does not have a policy for custodial credit risk. As of year end, \$ 1,045,149 of the City's bank balance of \$1,845,149 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Note 4 - Receivables and Deferred Revenue

The only receivable not expected to be collected within one year is as follows:

	Due After One Year	Fund
Primary government		
Special assessments	\$ 12,916	General Fund

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>
Primary government	
State shared revenue	\$ 33,604
Special assessments	<u>12,916</u>
	<u>\$ 46,520</u>

Note 5 - Capital Assets

Capital assets activity of the primary government for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 61,570	\$ -	\$ -	\$ 61,570
Capital assets being depreciated				
Land improvements	214,741	-	-	214,741
Infrastructure	816,432	106,122	-	922,554
Buildings, additions and improvements	215,371	-	-	215,371
Machinery and equipment	657,927	-	-	657,927
Vehicles	89,793	25,228	-	115,021
Total capital assets being depreciated	1,994,264	131,350	-	2,125,614
Less accumulated depreciation for				
Land improvements	191,357	2,905	-	194,262
Infrastructure	47,002	33,591	-	80,593
Buildings, additions and improvements	116,770	7,667	-	124,437
Machinery and equipment	452,682	46,600	-	499,282
Vehicles	76,729	2,485	-	79,214
Total accumulated depreciation	884,540	93,248	-	977,788
Net capital assets being depreciated	1,109,724	38,102	-	1,147,826
Governmental activities capital assets, net	\$ 1,171,294	\$ 38,102	\$ -	\$ 1,209,396

City of Auburn
Notes to Financial Statements
June 30, 2008

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets not being depreciated				
Land	\$ 36,000	\$ -	\$ -	\$ 36,000
Capital assets being depreciated				
Water system	2,558,671	14,186	-	2,572,857
Sewer system	1,806,998	-	-	1,806,998
Total capital assets being depreciated	4,365,669	14,186	-	4,379,855
Less accumulated depreciation for				
Water system	635,699	49,091	-	684,790
Sewer system	764,003	36,426	-	800,429
Total accumulated depreciation	1,399,702	85,517	-	1,485,219
Net capital assets being depreciated	2,965,967	(71,331)	-	2,894,636
Business-type capital assets, net	\$ 3,001,967	\$ (71,331)	\$ -	\$ 2,930,636

Capital assets activity of the component unit for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Component Unit				
Capital assets not being depreciated				
Land	\$ 13,000	\$ -	\$ -	\$ 13,000
Capital assets being depreciated				
Land improvements	12,581	-	-	12,581
Less accumulated depreciation for				
Land improvements	1,509	503	-	2,012
Net capital assets being depreciated	11,072	(503)	-	10,569
Component unit capital assets, net	\$ 24,072	\$ (503)	\$ -	\$ 23,569

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities

General government	\$ 6,770
Public safety	3,571
Public works	5,613
Recreation and culture	33,593

Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets

43,701

Total governmental activities 93,248

Business-type activities

Sewer	36,426
Water	49,091

85,517

Total business-type activities 85,517

Total primary government \$ 178,765

The component unit recognized \$503 of depreciation expense.

Note 6 - Interfund Receivables, Payable, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due from/to other funds		
Local Street	Major Street	\$ <u>3,788</u>

The outstanding balances between funds result mainly from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made.

City of Auburn
Notes to Financial Statements
June 30, 2008

Advances at year end are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Advances due to/from other funds		
General	Water	<u>\$ 395,000</u>

The advance was made for water main improvements. Annual principal payments of \$25,000 plus 3% annual interest will be made until the advance is paid in full in 2024.

The details for interfund transfers are as follows:

<u>Funds Transferred From</u>	<u>Funds Transferred To</u>	<u>Amount</u>
General Fund	Water Fund	\$ 12,400
General Fund	Local Street	20,500
Major Street	Local Street	24,085
Street Repair Millage Fund	Local Street	108,468
Street Repair Millage Fund	Other governmental funds	85,675
General Fund	Other governmental funds	<u>42,801</u>
		<u>\$ 293,929</u>

Transfers are used to move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs. The Street Repair Millage Fund and the Major Street Fund transferred revenues to the Local Street Fund for the construction of roadways. In addition, the Street Repair Millage Fund transferred funds to other governmental funds for the payment of debt.

City of Auburn
Notes to Financial Statements
June 30, 2008

Note 7 - Long-Term Debt

The government issues bonds to provide for the acquisition and construction of major capital projects. General obligation bonds are direct obligations and pledge the full faith and credit of the government. County contractual agreements and installment purchase agreements are also general obligations of the government. Other long-term obligations include compensated absences. Compensated absences are typically liquidated with funds from the General Fund.

Long-term obligation activity is summarized as follows:

	Maturity Date	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities								
Bonds and notes payable								
General obligation bonds								
2000 Midland Road Bonds	2013	6.00%	\$34,342	\$ 206,052	\$ -	\$ 34,342	\$ 171,710	\$ 34,342
2000 Michigan Transportation Bonds	2015	5.45% - 5.60%	\$40,000 - \$60,000	365,000	-	35,000	330,000	40,000
1992 Auburn Drain	2015	5.45% - 5.60%	\$20,000 - \$25,000	<u>180,000</u>	<u>-</u>	<u>20,000</u>	<u>160,000</u>	<u>20,000</u>
Total bonds payable				751,052	-	89,342	661,710	94,342
Compensated absences				<u>78,067</u>	<u>-</u>	<u>4,602</u>	<u>73,465</u>	<u>-</u>
Total governmental activities				<u>\$ 829,119</u>	<u>\$ -</u>	<u>\$ 93,944</u>	<u>\$ 735,175</u>	<u>\$ 94,342</u>
Business-type activities								
Bonds and notes payable								
General obligation bonds								
Bay County Sewer Bonds	2008	5.50%	\$24,593	<u>\$ 24,593</u>	<u>\$ -</u>	<u>\$ 24,593</u>	<u>\$ -</u>	<u>\$ -</u>

City of Auburn
Notes to Financial Statements
June 30, 2008

Annual debt service requirements to maturity for the above obligations are as follows:

Year Ending December 31,	Governmental Activities	
	Principal	Interest
2009	\$ 94,342	\$ 37,034
2010	94,342	31,788
2011	99,342	26,512
2012	104,342	20,964
2013	104,342	15,102
2014-2015	165,000	14,000
	<u>\$ 661,710</u>	<u>\$ 145,400</u>

Note 8 - Risk Management

The government is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. The government has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 9 - Employee Retirement and Benefit Systems

Defined Benefit Pension Plan

Plan description – The government participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the government. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 447 N. Canal Rd., Lansing, Michigan 48917.

Funding policy – The obligation to contribute to and maintain the system for these employees was established by negotiation with the government's competitive bargaining units and requires a contribution from the employees of 3 percent of gross wages for the first \$4,200 of wages earned and 5% thereafter, for full time employees.

Annual pension costs – For year ended 2008, the government's annual pension cost of \$33,038 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2007, using the entry age normal cost method. Significant actuarial assumptions used include: 1) a 8 percent investment rate of return; 2) projected salary increases of 4.5 percent per year; and 3) 4.5 percent per year cost of living adjustments. Both determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

Three year trend information as of December 31, 2007 follows:

	2007	2006	2005
Annual pension cost	\$ 32,812	\$ 27,657	\$ 31,200
Percentage of APC contributed	100%	100%	100%
Actuarial value of assets	1,393,058	1,274,864	1,179,536
Actuarial accrued liabilities	1,481,807	1,392,789	1,353,218
Unfunded AAL	88,749	117,925	173,682
Funded ratio	94.0%	92.0%	87.0%
Covered payroll	333,028	323,583	321,788
UAAL as a percentage of covered payroll	27%	36%	54%

City of Auburn
Notes to Financial Statements
June 30, 2008

Note 10 - Upcoming Accounting and Reporting Changes

The Government Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2010.

The Government Accounting Standards Board has issued Statement No. 49, *Accounting and Reporting for Pollution Remediation Obligations*. This Statement addresses how to account for pollution remediation activities for the effects of *existing* pollution. It does not include *prevention or control* activities nor future remediation required upon retirement of an asset. In general, a liability will be recorded based on the current value of expected costs estimated using the *expected cash flows method*. This Statement is effective for the year ending June 30, 2009. However, measurement is required as of the beginning of the period.

Note 11 – Subsequent Event

The City has been notified that no additional payments are required to be made to Bay County Drain Commission for the 2000 Midland Road Bonds. Sufficient funds have accumulated at Bay County Drain Commission to cover the remaining payments.

City of Auburn
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Taxes				
Property taxes	\$ 486,100	\$ 486,100	\$ 490,124	\$ 4,024
Penalties and interest	4,000	5,100	5,382	282
Administration fee	5,000	6,890	6,894	4
Licenses and permits	18,100	18,100	22,053	3,953
State revenue sharing	186,000	186,000	183,700	(2,300)
Charges for services	108,800	109,600	109,541	(59)
Fines and forfeitures	500	1,600	1,812	212
Interest income	23,000	28,000	45,141	17,141
Rental income	5,500	6,300	6,437	137
Other revenue	9,200	10,400	12,807	2,407
	<u>846,200</u>	<u>858,090</u>	<u>883,891</u>	<u>25,801</u>
Total revenues				
Expenditures				
General government				
Township board	4,920	5,180	5,083	(97)
Manager	96,137	88,378	86,118	(2,260)
Audit	2,500	2,500	2,135	(365)
Board of review	500	500	297	(203)
Treasurer	52,965	46,050	39,784	(6,266)
Assessor	10,350	10,350	9,959	(391)
Elections	13,906	12,906	9,735	(3,171)
Buildings and grounds	30,429	30,429	28,110	(2,319)
Attorney	5,000	2,000	(3,308)	(5,308)
	<u>216,707</u>	<u>198,293</u>	<u>177,913</u>	<u>(20,380)</u>
Total general government				

City of Auburn
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Public safety				
Police	\$ 194,105	\$ 194,105	\$ 192,648	\$ (1,457)
Fire department	63,000	63,000	62,565	(435)
Total public safety	257,105	257,105	255,213	(1,892)
Public works				
Department of public works	58,398	58,398	46,413	(11,985)
Sidewalks	27,465	27,465	18,274	(9,191)
Street lighting	22,000	23,500	22,581	(919)
Sanitary land fill	103,000	105,500	105,077	(423)
Total public works	210,863	214,863	192,345	(22,518)
Community and economic development				
Planning	11,100	5,900	2,181	(3,719)
Zoning	1,300	1,300	410	(890)
Total community and economic development	12,400	7,200	2,591	(4,609)
Recreation and culture				
Parks and recreation	57,376	74,105	70,517	(3,588)
Other functions				
Contingency	2,000	-	-	-
Capital outlay	10,500	10,500	8,010	(2,490)
Transfers out	58,600	79,100	75,701	(3,399)
Total expenditures	825,551	841,166	782,290	(58,876)
Excess of revenues over expenditures	20,649	16,924	101,601	84,677
Fund balance - beginning of year	960,499	960,499	960,499	-
Fund balance - end of year	\$ 981,148	\$ 977,423	\$ 1,062,100	\$ 84,677

City of Auburn
Required Supplemental Information
Budgetary Comparison Schedule
Major Street Fund
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
State revenue sharing	\$ 100,000	\$ 100,000	\$ 97,090	\$ (2,910)
Other state grants	2,000	2,000	2,144	144
Interest income	1,000	1,000	2,490	1,490
Total revenues	103,000	103,000	101,724	(1,276)
Expenditures				
Current				
Public works	67,069	67,069	61,361	(5,708)
Capital outlay	-	40,000	-	(40,000)
Transfers out	25,500	25,500	24,085	(1,415)
Total expenditures	92,569	132,569	85,446	(47,123)
Excess (deficiency) of revenues over expenditures	10,431	(29,569)	16,278	45,847
Fund balance - beginning of year	88,100	88,100	88,100	-
Fund balance - end of year	\$ 98,531	\$ 58,531	\$ 104,378	\$ 45,847

City of Auburn
Required Supplemental Information
Budgetary Comparison Schedule
Local Street Fund
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
State revenue sharing	\$ 41,000	\$ 41,000	\$ 39,132	\$ (1,868)
Other state grants	4,200	4,200	4,294	94
Interest income	5	5	44	39
Transfers in	140,000	245,500	153,053	(92,447)
Total revenues	185,205	290,705	196,523	(94,182)
Expenditures				
Current				
Public works	86,646	107,102	89,709	(17,393)
Capital outlay	115,000	200,000	98,467	(101,533)
Total expenditures	201,646	307,102	188,176	(118,926)
Excess (deficiency) of revenues over expenditures	(16,441)	(16,397)	8,347	24,744
Fund balance - beginning of year	1,308	1,308	1,308	-
Fund balance (deficit) - end of year	\$ (15,133)	\$ (15,089)	\$ 9,655	\$ 24,744

City of Auburn
Required Supplemental Information
Budgetary Comparison Schedule
Street Repair Millage Fund
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Taxes	\$ 267,157	\$ 267,157	\$ 267,154	\$ (3)
Interest income	8,000	8,000	5,009	(2,991)
Total revenues	275,157	275,157	272,163	(2,994)
Expenditures				
Current				
Public works	25	25	-	(25)
Transfers out	201,125	286,125	194,143	(91,982)
Total expenditures	201,150	286,150	194,143	(92,007)
Excess (deficiency) of revenues over expenditures	74,007	(10,993)	78,020	89,013
Fund balance - beginning of year	66,591	66,591	66,591	-
Fund balance - end of year	\$ 140,598	\$ 55,598	\$ 144,611	\$ 89,013

\$ 3,038

\$ 3,038

City of Auburn
Other Supplemental Information
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2008

	Special Revenue Fund	Debt Service Funds			Total Nonmajor Governmental Funds
	Building Inspection	2000 Midland Road Bonds	2000 Michigan Transportation Bonds	1992 Auburn Drain	
Revenues					
Licenses and permits	\$ 195	\$ -	\$ -	\$ -	\$ 195
Interest income	173	-	-	88	261
Total revenues	368	-	-	88	456
Expenditures					
Current					
Public safety	3,900	-	-	-	3,900
Debt service					
Principal retirement	-	20,000	35,000	34,342	89,342
Interest and fiscal charges	-	10,495	20,180	11,852	42,527
Total expenditures	3,900	30,495	55,180	46,194	135,769
Deficiency of revenues under expenditures	(3,532)	(30,495)	(55,180)	(46,106)	(135,313)
Other financing sources					
Transfers in	-	30,495	55,180	42,801	128,476
Net change in fund balance	(3,532)	-	-	(3,305)	(6,837)
Fund balance - beginning of year	6,570	-	-	3,305	9,875
Fund balance - end of year	\$ 3,038	\$ -	\$ -	\$ -	\$ 3,038

City of Auburn
Other Supplemental Information
Component Unit - Downtown Development Authority
Budgetary Comparison Schedule
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Taxes	\$ 206,000	\$ 206,000	\$ 221,038	\$ 15,038
Interest income	3,000	3,000	6,977	3,977
Other revenue	-	-	605	605
Total revenues	209,000	209,000	228,620	19,620
Expenditures				
Current				
Community and economic development	10,100	10,100	7,387	(2,713)
Capital outlay	200,000	200,000	32,230	(167,770)
Total expenditures	210,100	210,100	39,617	(170,483)
Excess (deficiency) of revenues over expenditures	(1,100)	(1,100)	189,003	190,103
Fund balance - beginning of year	152,775	152,775	152,775	-
Fund balance - end of year	\$ 151,675	\$ 151,675	\$ 341,778	\$ 190,103

City of Auburn
Component Unit - Downtown Development Authority
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2008

Net change in fund balances - Total governmental funds	\$ 189,003
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Total change in net assets reported for governmental activities in the statement of activities
is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those
assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation expense	<u>(503)</u>
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Change in net assets of governmental activities	<u>\$ 188,500</u>
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City of Auburn
Other Supplemental Information
Schedule of Indebtedness
June 30, 2008

Description	Interest Rate	Date of Maturity	Amount of Annual Maturity	Interest	Interest	Total
Governmental Activities	5.45%	2009	\$ 20,000	\$ 4,433	\$ 4,433	\$ 28,866
2000 Midland Road Bonds	5.50%	2010	20,000	3,888	3,888	27,776
	5.50%	2011	20,000	3,338	3,338	26,676
	5.55%	2012	25,000	2,788	2,788	30,576
	5.55%	2013	25,000	2,094	2,094	29,188
	5.60%	2014	25,000	1,400	1,400	27,800
	5.60%	2015	25,000	700	700	26,400
			<u>\$ 160,000</u>	<u>\$ 18,641</u>	<u>\$ 18,641</u>	<u>\$ 197,282</u>
 2000 Michigan Transportation Bonds	5.45%	2009	\$ 40,000	\$ 9,145	\$ 9,145	\$ 58,290
	5.50%	2010	40,000	8,055	8,055	56,110
	5.50%	2011	45,000	6,955	6,955	58,910
	5.55%	2012	45,000	5,718	5,718	56,436
	5.55%	2013	45,000	4,469	4,469	53,938
	5.60%	2014	55,000	3,220	3,220	61,440
	5.60%	2015	60,000	1,680	1,680	63,360
			<u>\$ 330,000</u>	<u>\$ 39,242</u>	<u>\$ 39,242</u>	<u>\$ 408,484</u>

City of Auburn
Other Supplemental Information
Schedule of Indebtedness
June 30, 2008

Description	Interest Rate	Date of Maturity	Amount of Annual Maturity	Interest	Interest	Total
Governmental Activities	6.00%	2009	\$ 34,342	\$ 4,939	\$ 4,939	\$ 44,220
Auburn Drain Contract	6.00%	2010	34,342	3,951	3,951	42,244
	6.00%	2011	34,342	2,963	2,963	40,268
	6.00%	2012	34,342	1,976	1,976	38,294
	6.00%	2013	34,342	988	988	36,318
			<u>\$ 171,710</u>	<u>\$ 14,817</u>	<u>\$ 14,817</u>	<u>\$ 201,344</u>

December 15, 2008

Management and City Commission
City of Auburn
113 East Elm Street
Auburn, MI 48611

We have completed our audit of the financial statements of City of Auburn as of and for the year ended June 30, 2008 and have issued our report dated December 5, 2008. We are required to communicate certain matters to you in accordance with auditing standards generally accepted in the United States of America that are related to internal control and the audit. The appendices to this letter set forth those communications as follows:

I Auditors' Communication of Significant Matters with Those Charged with Governance

II Management Comments

We discussed these matters with various personnel in the organization during the audit and have already met with management. We would also be pleased to meet with you to discuss these matters at your convenience.

These communications are intended solely for the information and use of management, City Commission, others within the organization, and are not intended to be and should not be used by anyone other than those specified parties.

Yeo & Yeo, P.C.

Saginaw, Michigan

Appendix I
Communication to Those Charged with Governance

Responsibilities under generally accepted auditing standards

As stated in our engagement letter dated May 12, 2008, we are responsible for conducting our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS) established by the Auditing Standards Board of the American Institute of Certified Public Accountants. Our responsibility, as prescribed by US GAAS, is to express an opinion about whether the financial statements prepared by management, with your oversight, are fairly presented, in all material respects. Our audit does not relieve you of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit as outlined in our discussion with you related to planning matters on May 12, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

- Management is responsible for the selection and use of appropriate accounting policies. We will advise management about their appropriateness and application. The significant accounting policies are described in (Note 1) of the financial statements. We noted no transactions entered into by the organization during the year where there is lack of authoritative guidance or consensus. There are no significant transactions that were recognized in a period other than which they occurred.
- Accounting estimates are based on management's knowledge and experience about past and current events and assumptions. Some estimates are sensitive because of their significance to the financial statements and the fact that future events affecting them may differ from those expected. The most sensitive accounting estimates and how they were derived by management are:

Management's estimate of the unbilled utility accounts receivable and compensated absences are based on actual billings for the quarter and hours accrued times hourly rates, respectively. We evaluated the key factors and assumptions used to develop the unbilled utility accounts receivable and compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole.

- Disclosures in the financial statements are neutral, consistent and clear. Certain disclosures are more sensitive than others due to their relevance to the users of the financial statements.

Difficulties Encountered During the Audit – *None*

Corrected and Uncorrected Misstatements

Professional standards require that the auditor accumulate all known and likely misstatements identified during the audit, other than those the auditor believes to be trivial. The adjustments identified during the audit have been communicated to management and management has posted all adjustments. Management has determined that the effects of the uncorrected misstatement below is immaterial both individually and in the aggregate, qualitatively and quantitatively, to the financial statements taken as a whole.

Accounts receivable in the Water Fund is understated by \$1,047.

Disagreements with Management

A disagreement with management is defined as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, which could be significant, individually or in the aggregate to the financial statements or the auditors' report. We had no disagreements with management during the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

Management's Consultations with Other Accountants

From time to time, management may decide to consult with other accountants about audit and accounting matters. Should this occur, professional standards require the consulting accountant to communicate with us to determine that they have all the relevant facts. To our knowledge, there were no consultations with other accountants during the year.

Significant Issues Discussed or Subject to Correspondence with Management

From time to time auditors discuss significant issues with management such as business conditions affecting the entity, business plans and strategies that may affect the risk of material misstatement and the application of accounting principles and auditing standards. The issues discussed during the audit occurred during the normal course of our professional relationship and our responses were not a condition to our retention.

Appendix II Management Comments

In planning and performing our audit of the financial statements of City of Auburn as of and for the year ended June 30, 2008, we considered City of Auburn internal control over financial reporting (internal control) as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls, improving operating efficiency and reducing expenses. This letter does not affect our report date December 5, 2008, on the financial statements of City of Auburn. Our comments and recommendations regarding those matters are:

Documentation of Internal Controls

As part of our audit planning procedures, we are required to obtain an understanding of internal control of the City. Part of the internal control process is the communication of information, including the communication of how internal controls are designed and operating. During our audit planning procedures we noted that documentation of internal control policies and procedures is still incomplete. We recommend that the City completely document and disseminate all internal control policies and procedures in one document. This ensures that all employees understand what their responsibilities in internal control are. In addition, it ensures continuity of internal control procedures in the unfortunate event of employee turnover or unexpected absence. Documentation should not only indicate the flow of documents but also what internal control procedures are performed by each employee and what documentation is required to indicate a procedure was completed. The monitoring process should also be documented in these procedures manual, including who is responsible for monitoring, the minimum monitoring which must be done, and what documentation is required to indicate monitoring was performed.

Petty Cash

During the audit, we performed a petty cash count of the City Clerk/Treasurer. The City Clerk/Treasurer keeps \$50 in petty cash and at the time of the count only \$33.30 was there. No receipts or supporting documentation existed to account for the remaining \$16.70 that was used. In addition, we noted the petty cash was being held in more than one location. No cash drawer or lock box was being used to hold the cash. We recommend the City use a cash drawer to hold the money in one central location. We further recommend that all disbursements from petty cash have a receipt or attached supporting documentation so at the end of the day actual cash on hand plus receipts equal the \$50 in petty cash. This will help safeguard cash and protect the City Clerk/Treasurer from any potential allegations.